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State of Montana Board of Investments 1976-1977 Fiscal Year Report

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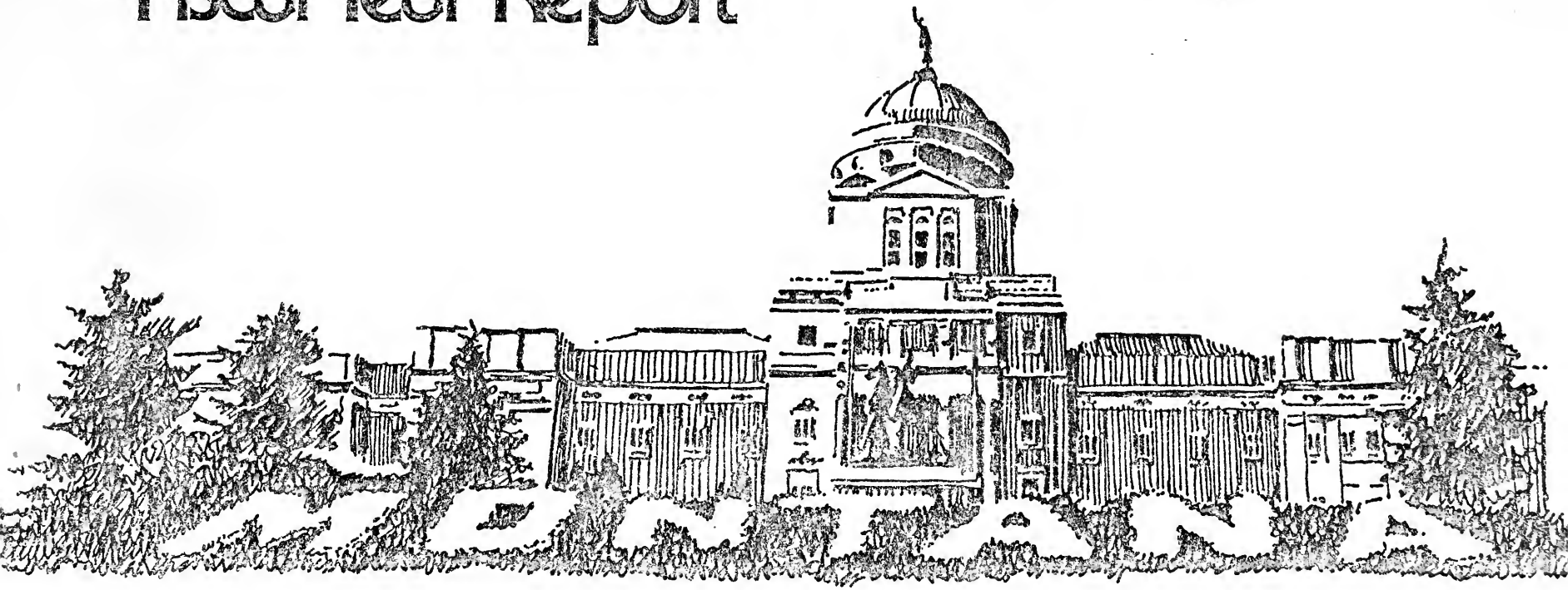

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Department of Administration
Board of Investments

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INTRODUCTION

The Board of Investments completed its sixth year of operations as of June 30, 1977. Since its inception, the Board has had two primary policy objectives:

1. To earn the highest possible return within the risk parameters set forth under state law; and
2. To benefit Montana's economy by making funds available for use within the state.

The first objective has been accomplished, in part, by reducing non-interest bearing demand deposit balances. Further, through an active bond-swapping program, many low-yielding bonds have been sold and the proceeds reinvested in higher-yielding issues. As a result, investment income has been increased by approximately $1.4 million annually since fiscal 1971. Finally, a successful common stock investment program has provided an important inflation hedge.

Regarding the second policy objective, the Board has actively purchased Montana certificates of deposit and Montana mortgages. For fiscal 1977, the amount invested in Montana certificates of deposit was increased 39 percent to a record $62.3 million. This represented an 85 percent increase over the 1972 balance. In an effort to expand the secondary market for Montana mortgages, the Board has conducted monthly meetings around the state; representatives of local financial institutions are invited to attend these meetings at which the Board's mortgage purchasing policy is reviewed. As a result of these efforts, the investment in Montana mortgages expanded by $9.5 million or 22 percent during fiscal 1977 to $51.8 million by year end. The growth rates for certificates of deposit and Montana mortgage holdings exceeds substantially the growth in total investment funds and exemplifies the Board's firm commitment to intra-state investment.

TOTAL INVESTMENT INCOME

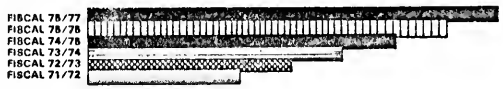
June 30, 1976 $41,459,770

June 30, 1977 $47,313,627

Up 14.1%

	% OF TOTAL	AMOUNT*
Treasurer's Fund	24.3	$172,407,748
	25.6	160,611,004
	28.8	154,853,092
	28.3	132,868,584
	21.6	82,390,032
	18.4	59,171,750
Public Employees' Retirement System Fund	22.7	160,855,338
	22.1	139,122,858
	22.2	119,289,223
	22.1	103,473,526
	23.8	90,765,329
	24.9	80,055,280
Teachers' Retirement System Fund	19.1	135,523,819
	18.9	118,703,517
	19.1	103,197,065
	19.8	93,063,895
	22.1	84,143,598
	22.8	73,042,411
Trust and Legacy Fund	11.0	78,069,097
	11.4	71,302,828
	12.4	67,007,762
	13.7	64,183,277
	17.0	64,903,878
	19.5	62,648,333
Workers' Compensation Fund	7.2	51,328,111
	6.6	41,560,859
	6.0	32,375,482
	5.6	26,333,050
	4.8	18,116,007
	5.0	16,127,000
Other Retirement Funds ☐	2.0	14,405,185
	1.9	12,244,810
	1.3	6,787,368
	1.0	4,906,604
	1.1	4,297,957
	1.1	3,683,476
Social Security Fund	1.4	9,942,202
	1.4	8,823,986
	1.5	8,068,610
	1.5	7,057,334
	1.6	5,915,653
	1.6	4,905,501
Long Range Building Fund	1.4	9,744,865
	1.7	10,526,675
	1.6	8,324,070
	1.9	8,671,714
	1.8	6,888,183
	2.1	6,884,407
Various University Funds ☐	1.2	8,615,448
	.6	3,519,061
	.3	1,379,750
	.5	2,253,393
	.7	2,806,024
	1.6	5,174,366
Resource Indemnity Fund	1.2	8,214,869
	.9	5,542,021
	.6	3,279,661
	.2	1,098,143
Educational Trust Fund	.1	5,735,390
	.3	2,171,000
Common School Interest & Income Fund	.8	5,255,348
	.9	5,548,001
	1.0	3,378,438
	1.1	5,096,791
	1.0	3,783,000
	.9	2,762,388
Long Range Building Sinking Fund	.5	3,395,524
	.5	3,397,000
	.6	3,597,000
	.9	4,177,000
	.9	3,472,169
	.9	2,722,000
Federal Revenue Sharing Funds	.3	2,138,871
	.4	2,540,712
	.7	4,189,963
	1.0	3,614,595
	2.1	8,196,835
Other Funds ☐	3.1	21,453,557
	3.5	21,506,199
	1.6	8,131,141
	1.2	5,307,779
	1.5	5,708,396
	1.2	3,734,978
Other STIP ☐	2.7	19,332,033
	3.3	21,003,550
	2.3	12,513,152
	1.2	5,664,829
TOTAL	100.0	$709,417,368
	100.0	$628,127,199
	100.0	$548,112,085
	100.0	$466,773,614
	100.0	$381,387,441
	100.0	$320,991,887

SOURCE OF INVESTMENTS



* Stated at Cost
☐ See Schedule A

OPERATIONS

Market Behavior

During fiscal 1977, capital markets were characterized by gradually easing interest rates and moderately declining stock prices. As is illustrated on page 5, short- and long-term rates declined slightly during the year. Average rates on bankers' acceptances, for example, decreased by 13 percent to 5.05 percent compared to 5.78 percent during the previous fiscal period. Average rates on commercial paper, another short-term instrument, also declined by 13 percent from 5.91 percent to 5.14 percent during fiscal 1977. The decline in average rates on long-term AAA corporate bonds was 6 percent—from 8.70 percent to 8.17 percent. A moderate decline was experienced in the stock market averages as the Dow-Jones Industrials and the Standard and Poor's 500 indices declined 9 and 4 percent respectively.

As the above indicates, the decline in short-term rates was more pronounced than in long-term rates. Consequently, portfolios such as the Treasurer's Fund and the Short-Term Investment Pool with a large portion of short-term holdings were most affected by this market occurrence.

Board Performance

During the fiscal year, the Board managed 38 major funds including the Short-Term Investment Pool which has 92 state and local participants. .

Total investments, stated at cost, increased 13 percent from the previous fiscal year-end to a record $709.4 million. Total investment income increased 14 percent to $47.3 million, also a record.

The average portfolio yield on all funds was 7.33 percent compared to the previous year's 7.37 percent. However, a majority of all major long-term funds invested by the Board showed a higher yield than during the previous year. The lower yield traces to the general decline in both short- and long-term rates. The average portfolio yield fell by less than 1 percent compared to drops of 6 and 13 percent respectively for long- and short-term rates. In summary, the average portfolio yield declined but by less than the overall market.

During fiscal 1977, a continuous bond performance measurement system was established to compliment the performance measurement system for common stocks. Both measures compare Montana's investment performance to the relevant markets and to other professionally-managed funds throughout the country. They encompass the timing of purchase and sell actions as well as market value fluctuations, and thus, are considered superior to performance measures used in the past.

The actual common stock and bond performance statistics are presented in detail on page 15. The Montana investments have outperformed over 75 percent of the 3000 plus professionally-managed common stock and bond programs examined in a national survey, as well as the popular market indices for stocks.

On a time-weighted basis, Montana's annual rates of return for common stocks and bonds were 4.00 and 15.10 percent respectively during fiscal 1977. This compares with 0.60 percent for the Standard and Poor's 500 stock average and 15.15 percent for the Salomon Brothers bond index. Further, the survey referred to earlier revealed that 75 percent of the money managers reported rates of return of less than 2.30 percent for common stocks and 13.80 percent for bonds.

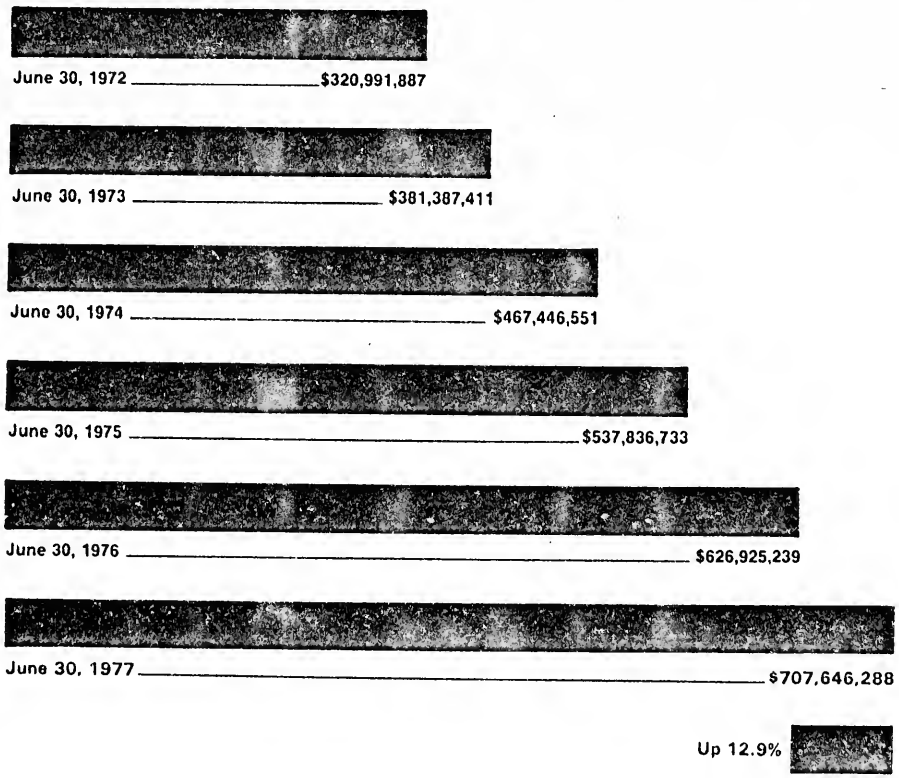
Board Activity

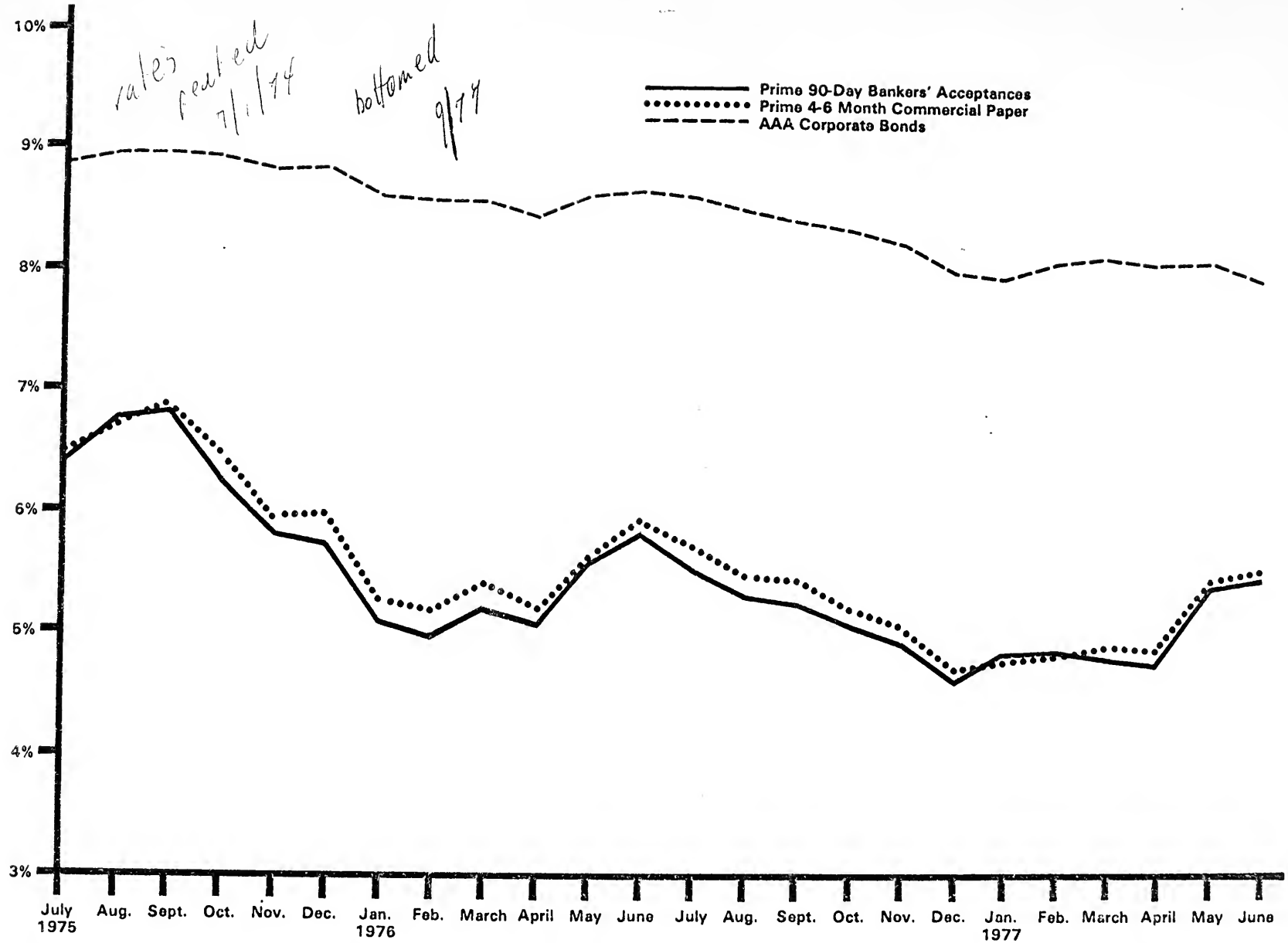
Security transactions totaled $9.6 billion during fiscal year 1977, considerably above the $8.4 billion for the previous fiscal period. This represents transactions of 2,809 for the year, or a 53 percent increase over the 1,838 transactions during fiscal 1976. Short-term investments accounted for 99 percent of the dollar volume with the majority of this activity involving money-market instruments.

As required by state law, the investment records have been audited annually since the Board's inception. The audit for fiscal 1977 has been completed.

The composition of the Board has changed during the year. The Board expresses its appreciation to outgoing chairman, Maxine C. Johnson, and former chairman and member, Paul D. Caruso, for the dedicated service they have rendered since the Board's inception. The Board welcomes Chairman Dean H. Albert and new board members Patricia P. Douglas and Jay Lalonde.

TOTAL INVESTMENTS AT COST



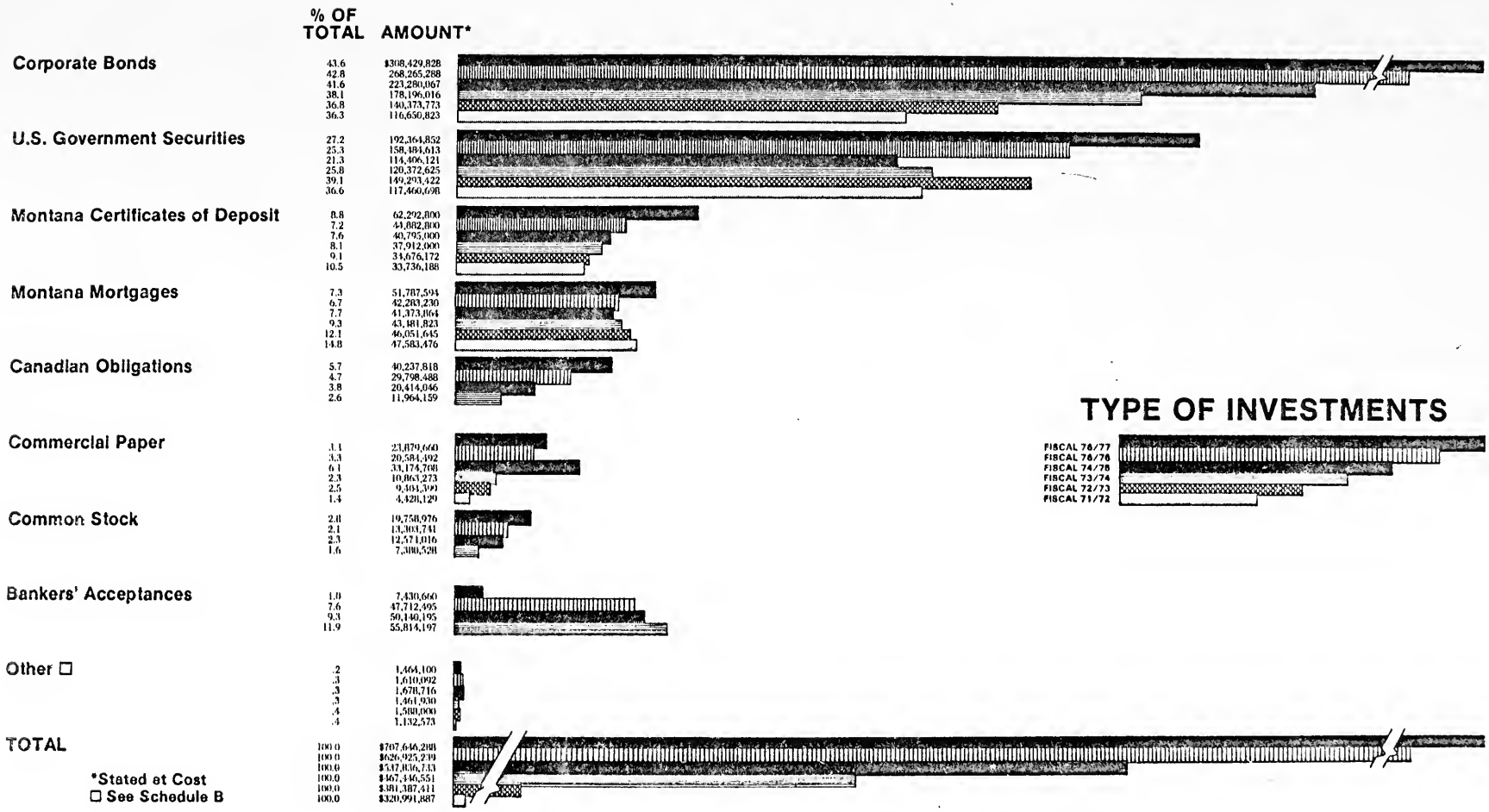


Source: U.S. Dept. of Commerce, *Survey of Current Business*, July 1975 to July 1977.

SUMMARY OF SECURITY TRANSACTIONS
FISCAL YEAR 1976-1977

	PAR VALUE	COST/PROCEEDS
SHORT-TERM		
PURCHASES:		
Bankers' Acceptances	$ 317,351,233	$ 315,872,322
Certificates of Deposit	59,693,553	59,693,553
Commercial Paper	263,712,000	262,657,892
Government Securities	933,400,000	932,756,936
Repurchase Agreements	7,683,537,000	7,683,537,000
TOTAL	$ 9,257,693,786	$ 9,254,517,703
SALES:		
Short-Term	$ 252,450,000	$ 252,938,160
TOTAL SHORT-TERM TRANSACTIONS	$ 9,510,143,786	$ 9,507,455,863
LONG-TERM		
PURCHASES:		
Common Stock—Shares **269,141**	$ 0	$ 6,547,271
Corporate Bonds	61,822,658	61,527,865
Government Securities	20,881,000	20,878,001
Mortgages	16,036,668	15,709,364
TOTAL	$ 98,740,326	$ 104,662,501
SALES:		
Common Stock—Shares **3,415**	$ 0	$ 42,499
Corporate Bonds	10,532,000	10,777,255
Government Securities	14,394,000	14,440,082
TOTAL	$ 24,926,000	$ 25,259,836
TOTAL LONG-TERM TRANSACTIONS	$ 123,666,326	$ 129,922,337
TOTAL TRANSACTIONS	$ 9,633,810,112	$ 9,637,378,200

TOTAL NUMBER OF TRANSACTIONS 2,809



*Stated at Cost
□ See Schedule B

	% OF CHANGE	AMOUNT*
Public Employees' Retirement System Fund	18.7	$10,862,271
	20.5	9,151,694
		7,593,641
		6,351,912
		5,471,055
		4,566,690
Treasurer's Fund	(6.7)	9,894,208
	(12.6)	10,602,326
		12,135,349
		8,340,038
		3,385,647
		1,507,755
Teachers' Retirement System Fund	18.0	9,099,279
	15.1	7,712,986
		6,702,284
		5,963,310
		5,075,517
		4,402,802
Trust and Legacy Fund	10.6	4,942,025
	20.5	4,468,168
		3,706,778
		3,476,332
		3,349,227
		2,666,280
Workers' Compensation Fund	33.8	3,542,609
	25.8	2,648,481
		2,105,791
		1,478,969
		1,084,250
		868,789
Other Retirement Funds	33.3	984,871
	91.6	738,771
		385,561
		319,369
		253,245
		214,632
Long Range Building Fund	(9.6)	749,531
	5.5	820,903
		785,803
		634,752
		434,478
		738,234
Various University Funds	(5.1)	576,905
	274.1	608,192
		162,571
		213,554
		191,141
		323,365
Social Security Fund	7.0	490,677
	(24.1)	458,605
		604,250
		474,642
		247,054
		180,417
Resource Indemnity Fund	47.6	475,082
	234.8	321,782
		96,126
		3,485
Federal Revenue Sharing Fund	115.7	315,106
	(70.8)	146,117
		500,804
		628,027
		130,783
Long Range Building Sinking Fund	(4.6)	250,583
	.8	262,793
		260,681
		285,399
		224,100
		189,820
Educational Trust Fund	551.7	239,115
		36,690
Other Funds	90.9	2,153,872
	(13.9)	1,127,983
		1,310,555
		1,084,735
		495,898
		465,412
Other STIP	20.5	1,374,348
	49.5	1,140,078
		762,542
		165,086
TOTAL	15.3	$45,950,562
	8.5	$40,253,569
		$37,112,803
		$29,419,610
		$29,342,395
		$16,132,196

*Modified Income

TOTAL INVESTMENT INCOME

FISCAL 76/77
FISCAL 75/76
FISCAL 74/75
FISCAL 73/74
FISCAL 72/73
FISCAL 71/72

TREASURER'S FUND

At fiscal 1977 year end, the Treasurer's Fund (surplus treasury cash) was the largest fund managed by the Board, a reflection of the state's fiscal postion. Since state obligations are paid daily, the invested balance is subject to wide fluctuations and often balances are invested only overnight. As a result, liquidity is a primary objective and the portfolio is invested predominantly in short-term instruments.

As of June 30, 1977, the invested balance, stated at cost, was $172.4 million, 7 percent above the fiscal 1976 year-end figure. Investment income declined by 6 percent for the year to a total of $9.8 million. The yield on the portfolio, calculated by dividing yearly income by the average daily invested balance, was 6.28 percent for fiscal 1977 compared to 6.65 percent in fiscal 1976.

The decline in income and yield that occurred is explained by what happened in the short-term money markets. As mentioned previously, short-term rates declined 13 percent during the year. This fund's yield declined 6 percent. Since the Treasurer's Fund is invested almost entirely in short-term securities, a decline in the yield was to be expected. Relative to the market, however, the performance can still be considered favorable.

ANALYSIS OF INVESTMENTS

TYPE:	Fiscal 75/76 COST	75/76 %	Fiscal 76/77 COST	76/77 %	% CHANGE
Montana Certificates of Deposit	$ 7,490,000	4.7	$ 5,450,000	3.2	(27.2)
Repurchase Agreements	21,760,000	13.5	55,180,000	32.0	153.6
U.S. Treasury Obligations	28,996,458	18.1	—0—	—0—	(100.0)
Corporate Obligations	—0—	—0—	7,961,103	4.6	
Short-Term Investment Pool	102,364,546	63.7	103,816,645	60.2	1.4
TOTAL INVESTMENTS	$ 160,611,004	100.0	$ 172,407,748	100.0	7.3

SHORT-TERM INVESTMENT POOL

Fiscal 1977 represented the fourth year of operations for the Short-Term Investment Pool (STIP). During fiscal 1977, STIP had 92 participants including 5 university units, 56 local governments and 31 state accounts.

STIP provides a short-term investment alternative for participants who have a relatively small amount to invest. Minimum participation in STIP is approximately $1,000 and any Montana city, county, school district or political subdivision may invest in it. STIP provides excellent liquidity to its participants while generating an attractive return; it offers an opportunity to improve local cash management because demand deposit balances can be reduced significantly without impairing liquidity.

During the year the maturity structure of the STIP portfolio was altered substantially. Based upon cash-flow analysis for previous years, a greater percentage of the pool was shifted from short-term to intermediate-term commitments, and as a result, these investments earned higher rates of return. Long-term investments comprise 7 percent of the portfolio; 44 percent is invested in intermediate-term securities; and 49 percent is invested short-term, mainly in money market instruments.

The Board also channeled more funds directly into the state economy by increasing the amount invested in Montana certificates of deposit—from $36.8 million in fiscal 1976 to a record $56 million in fiscal 1977. This 53 percent increase is far greater than the 1 percent increase in STIP investments. As of June 30, 1977, STIP's total investments, stated at book value, equaled $165 million.

Participants in STIP earned, for the 1977 fiscal year, an average return of 6.76 percent compared to 7.02 percent during fiscal 1976. The decline in STIP's yield is attributed to the general decline in the money-market rates during the fiscal year. Average rates on comparable money-market instruments fell 13 percent whereas the average yield for STIP declined by only 4 percent, a satisfactory performance by market comparisons.

ANALYSIS OF INVESTMENTS

TYPE:	Fiscal COST	75/76 %	Fiscal COST	76/77 %	% CHANGE
Montana Certificates of Deposit	$ 36,850,000	22.5	$ 56,250,000	34.1	52.6
Repurchase Agreements	6,837,000	4.2	28,106,000	17.0	311.1
U.S. Treasury Obligations	25,603,783	15.6	21,474,688	13.0	(16.1)
Government Agency Obligations	19,758,750	12.1	21,748,281	13.2	10.1
Canadian Obligations	4,862,500	3.0	6,862,500	4.2	41.1
Corporate Obligations	69,892,970	42.6	30,566,267	18.5	(56.3)
TOTAL INVESTMENTS	$ 163,805,003	100.0	$ 165,007,736	100.0	0.7

PUBLIC EMPLOYEES' RETIREMENT SYSTEM FUND

The Public Employees' Retirement System Fund (PERS) is the second largest fund managed by the Board and it covers the contributions of public employers and employees. The yearly change in the investment balance is determined by the net difference between contributions and investment income less benefit payments. The nature of the fund dictates that the portfolio be invested predominantly in long-term securities; said differently, since liquidity is not a primary objective, short-term investments are held to a minimum. While PERS and the Teacher's Retirement System are the only major funds participating in a common stock investment program, about 95 percent of their portfolios are invested in fixed-income obligations.

On June 30, 1977, the PERS invested balance, stated at book value, reached a record $160.9 million, 16 percent above the previous year. Investment income for the year increased 18 percent to $11.4 million and the yield was 7.87 percent compared to the previous year's 7.75 percent. This higher yield occurred despite the general decline in interest rates; for the same period, long-term AAA corporate bond rates fell by 6 percent.

Although the common stock investment program was initiated four years ago, only 6 percent of the fund is invested in equities, well below the 20 percent statutory limit. The Board has attempted to build the portfolio gradually from net cash inflow rather than to liquidate current holdings.

The common stock and bond performance statistics are presented on page 15. Again, the common stock and bond portfolios of PERS outperformed more than 75 percent of all professionally-managed portfolios in the A.G. Becker survey as well as the popular stock market indices. On a time-weighted basis, the annual rate of return for the PERS bond portfolio was 15.10 percent during fiscal 1977, compared to 15.15 percent for the Salomon Brothers bond index, and substantially above the 13.80 percent or less for 75 percent of the bond portfolios surveyed. PERS common stocks earned 4.00 percent compared to 0.60 percent for the S & P 500 and 2.30 percent or less for 75 percent of the common stock portfolios in the survey.

ANALYSIS OF INVESTMENTS

TYPE:	Fiscal COST	75/76 %	Fiscal COST	76/77 %	% CHANGE
Montana Obligations	$ 1,178,756	0.8	$ 1,096,787	0.7	(7.0)
Repurchase Agreements	1,000,000	0.7	—0—	—0—	(100.0)
U.S. Treasury Obligations	482,889	0.4	483,613	0.3	0.1
Government Agency Obligations	1,874,359	1.3	2,333,050	1.4	24.5
U.S. Govt. Guaranteed Obligations	2,994,625	2.2	3,988,733	2.5	33.2
Canadian Obligations	8,062,932	5.8	9,930,929	6.2	23.2
Corporate Obligations	95,743,410	68.8	107,577,486	66.9	12.4
Convertible Bonds	955,000	0.7	855,000	0.5	(10.5)
Common Stock	6,623,685	4.8	9,890,827	6.1	49.3
Montana Mortgages	20,050,953	14.4	24,547,724	15.3	22.4
Land and Building	156,249	0.1	151,189	0.1	(3.3)
TOTAL INVESTMENTS	$ 139,122,858	100.0	$ 160,855,338	100.0	15.6

TEACHERS' RETIREMENT SYSTEM FUND

The Teachers' Retirement System Fund is the third largest fund managed by the Board of Investments. On June 30, 1977, total investments, stated at book value, were $135.5 million. This represented a 14 percent increase over the previous fiscal year. Despite the general decline in interest rates, investment income in fiscal 1977 increased 16 percent to $9.4 million, or an average yield of 7.68 percent compared to 7.55 percent for fiscal 1976.

The Teachers' Retirement System participates equally with the Public Employees' Retirement System in a common stock investment program. Here again, the Board's policy has been to build the stock portfolio gradually from net cash inflows rather than to liquidate existing investments. Consequently, only about 7 percent of the invested balance was in common stocks on June 30, 1977; the remaining 93 percent is invested in fixed-income obligations.

The performance statistics for both bonds and common stocks are presented in detail on page 15. As indicated there, the Teachers' Retirement System portfolio outperformed the popular market indices. In addition, the performance exceeded that of over 75 percent of other professionally-managed funds. On a time-weighted basis, the common stock portfolio had a return of 4.00 percent compared to 0.60 for the S & P 500 and 2.30 percent or less for 75 percent of the common stock portfolios surveyed. On the same basis, the Teachers' Retirement bond portfolio had a return of 14.40 percent which placed the portfolio's performance in the top 25 percent of the national survey figures.

ANALYSIS OF INVESTMENTS

TYPE:	Fiscal COST	75/76 %	Fiscal COST	76/77 %	% CHANGE
Repurchase Agreements	$ 1,931,000	1.6	$ 2,100,000	1.5	8.8
U.S. Treasury Obligations	482,889	0.4	483,613	0.4	0.1
Government Agency Obligations	1,155,626	1.0	1,154,385	0.8	(0.1)
U.S. Govt. Guaranteed Obligations	2,490,625	2.2	3,477,145	2.6	39.6
Canadian Obligations	8,758,736	7.4	11,526,598	8.5	31.6
Corporate Obligations	74,017,423	62.3	78,735,138	58.1	6.4
Convertible Bonds	1,584,601	1.3	1,484,882	1.1	(6.3)
Common Stock	6,680,056	5.6	9,868,149	7.3	47.7
Montana Mortgages	21,432,474	18.1	26,527,785	19.6	23.8
Land and Building	170,087	0.1	166,124	0.1	(2.3)
TOTAL INVESTMENTS	$ 118,703,517	100.0	$ 135,523,819	100.0	14.2

TRUST AND LEGACY FUND

The Trust and Legacy Fund is the fourth largest fund managed by the Board. On June 30, 1977, the invested balance, stated at book value, was $78.1 million, or 9 percent above the previous fiscal year. Investment income totaled $5.2 million, a 15 percent increase over fiscal 1976 and the average portfolio yield was 7.28 percent compared to the previous year's 6.79 percent. This yield improvement occurred despite declining interest rates.

During recent years, and beause the Board has swapped low-yielding government securities for high-yielding corporate bonds, the yield of this fund has risen substantially—from an average of 4.20 percent during fiscal 1971 to 7.28 percent during fiscal 1977.

During fiscal 1977, a bond performance measurement system was implemented; the bond performance statistics are presented on page 15. On a time-weighted basis, the rate of return for the Trust & Legacy bond portfolio was higher than that of two popular bond market indices as well as in the top 25 percent of the bond portfolio yields included in a national survey. The Trust and Legacy bond portfolio provided a return of 16.20 percent compared to 15.10 percent and 15.15 percent respectively for the Kuhn-Loeb Index and Salomon Brothers Index. In addition, 75 percent of the bond managers surveyed reported returns of less than 13.80 percent.

ANALYSIS OF INVESTMENTS

TYPE:	Fiscal 75/76 COST	75/76 %	Fiscal 76/77 COST	76/77 %	% CHANGE
Repurchase Agreements	$ 954,000	1.3	$ 500,000	0.7	(47.6)
U.S. Treasury Obligations	2,291,889	3.2	955,221	1.2	(58.3)
Government Agency Obligations	8,461,240	11.9	4,475,350	5.7	(47.1)
U.S. Govt. Guaranteed Obligations	17,041,141	23.9	18,286,464	23.4	7.3
Canadian Obligations	2,705,596	3.8	4,210,889	5.4	55.6
Corporate Obligations	39,848,962	55.9	49,641,173	63.6	24.6
TOTAL INVESTMENTS	$ 71,302,828	100.0	$ 78,069,097	100.0	9.5

WORKERS' COMPENSATION FUND

The Workers' Compensation Fund, the fifth largest portfolio managed by the Board, includes the monies from the state-administered industrial accident insurance program.

During fiscal 1977, the total invested balance, stated at book value, increased 24 percent to a record $51.3 million. As a result of several factors, including the expansion in covered workers, this fund has grown more rapidly than any other one managed by the Board.

Investment income in fiscal 1977 increased 29 percent to a record $3.7 million. The average portfolio yield increased slightly, despite declining market rates, from 8.09 percent in fiscal 1976 to 8.29 in fiscal 1977.

The bond performance measurement system became operational during the year; specific bond performance statistics are presented on page 15. On a time-weighted basis, the Workers' Compensation Fund's bond portfolio had an annual rate of return of 13.90 percent, slightly above the 13.80 percent or less reported for 75 percent of the professionally-managed funds surveyed.

ANALYSIS OF INVESTMENTS

TYPE:	Fiscal 75/76 COST	75/76 %	Fiscal 76/77 COST	76/77 %	% CHANGE
Montana Obligations	$ 55,000	0.1	$ —0—	—0—	(100.0)
Repurchase Agreements	500,000	1.2	2,500,000	4.9	400.0
U.S. Treasury Obligations	2,592,259	6.2	483,613	0.9	(81.3)
Government Agency Obligations	400,000	1.0	400,000	0.8	—0—
U.S. Govt. Guaranteed Obligations	500,000	1.2	3,000,000	5.8	500.0
Canadian Obligations	4,487,964	10.8	5,788,398	11.3	29.0
Corporate Obligations	32,461,851	78.1	38,647,219	75.3	19.1
Montana Mortgages	563,785	1.4	508,881	1.0	(9.7)
TOTAL INVESTMENTS	$ 41,560,859	100.0	$ 51,328,111	100.0	23.5

PERFORMANCE COMPARISONS

Annualized Time-Weighted Total Rates of Return

COMMON STOCK:	Fiscal Year 1976 %	Fiscal Year 1977 %	From Inception 8/31/73 to 6/30/77 %
Montana	19.08	4.00	6.95
A.G. Becker 1st Quartile*	11.57	2.30	N.A.
A.G. Becker Median	8.07	—2.60	N.A.
S & P 500	14.03	0.60	3.26

BONDS:	Fiscal Year 1977 %
Montana (total)	15.10
A.G. Becker 1st Quartile	13.80
A.G. Becker Median	12.80
Kuhn-Loeb Index**	15.10
Salomon Brothers Index***	15.15
Public Employees' Retirement	15.10
Teachers' Retirement	14.40
Trust & Legacy	16.20
Workers' Compensation	13.90

*The A.G. Becker sample includes over 3000 managed funds throughout the country. The sample is ranked by performance results. For example, the 1st quartile figures are the minimum return generated by the top 25 percent of the sample; said differently, 75 percent of all money managers surveyed had returns below this figure.

**This index is comprised of all publicly issued, non-convertible, domestic debt of industrial, utility, and financial issuers. Bonds included have a rating of at least Baa by Moody's or BBB by Standard & Poor's. In the case of bank bonds, the minimum rating is BBB by Fitch. Debt maturing within one year is omitted. The minimum outstanding par value is $1,000,000. Currently, there are 4,114 issues included in the index.

***This index is comprised of all non-convertible industrial and utility bonds which were originally publicly offered with a maturity of 1988 or later, a Standard & Poor's quality rating of AAA or AA, and an outstanding par value of at least $25,000,000. Currently, there are 675 issues in the index.

FINANCIAL STATEMENTS

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AUDITOR'S OPINION

To the Legislative Audit Committee of the Montana State Legislature:

We have examined the statement of investments managed of the State of Montana Board of Investments, All Funds, Excluding the Short-Term Investment Pool, as of June 30, 1977, and the related statements of investment income and changes in investments managed for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the State of Montana Board of Investments, All Funds, Excluding the Short-Term Investment Pool, for the year ended June 30, 1976, which are presented for comparative purposes, were not examined by us; they were examined and reported on by other public accountants. Their opinion on such statements included in their report dated November 30, 1976, was qualified because "the investment in securities is stated at book value ($463,120,236) instead of market value ($442,301,993) and unrealized gains and losses are not recognized, which is not in accordance with generally accepted accounting principles."

In our opinion, the accompanying financial statements present fairly the investments managed of the State of Montana Board of Investments, All Funds, Excluding the Short-Term Investment Pool, as of June 30, 1977, and its investment income and the changes in its investments managed for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination has been made primarily for the purpose of forming the opinion stated in the preceding paragraph. The portfolio information contained in the supplement to the 1976-1977 Fiscal Year Report of the State of Montana Board of Investments, although not considered necessary for a fair presentation of investments managed, investment income and changes in investments managed, is presented as supplementary information and has been subjected to the audit procedures applied in the examination of the basic financial statements. In our opinion, the portfolio information is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

ARTHUR ANDERSEN & CO.
Boise, Idaho
September 28, 1977

STATE OF MONTANA BOARD OF INVESTMENTS
ALL FUNDS, EXCLUDING THE SHORT-TERM INVESTMENT POOL

STATEMENT OF INVESTMENTS MANAGED
JUNE 30, 1977 AND 1976

	1977	1976
Investments managed at book value (market value of $540,770,863 in 1977 and $442,301,993 in 1976) (Note 2)	$ 542,638,554	$ 463,120,236
Dividends and interest receivable	8,495,357	7,020,869
Net unamortized deferred losses on bond swaps (Note 2)	6,453,323	7,530,265
Interest purchased receivable	154,031	161,055
Net investments managed	$ 557,741,265	$ 477,832,425

STATE OF MONTANA BOARD OF INVESTMENTS
ALL FUNDS, EXCLUDING THE SHORT-TERM INVESTMENT POOL

STATEMENT OF INVESTMENT INCOME
FOR THE YEARS ENDED JUNE 30, 1977 AND 1976

	1977	1976
Interest income	$ 35,589,090	$ 30,505,215
Dividend income	837,562	663,293
Realized gain on sale of investments	223,816	659,943
Rental income	31,324	31,931
	36,681,792	31,860,382
Administrative expenses	(79,254)	(77,012)
Net amortization of deferred losses on bond swaps (Note 2)	(1,152,541)	(1,013,758)
Trust and Legacy Fund portfolio cost adjustment (Note 4)	—0—	(90,865)
	(1,231,795)	(1,181,635)
Net investment income	$ 35,449,997	$ 30,678,747

The accompanying notes are an integral part
of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
ALL FUNDS, EXCLUDING THE SHORT-TERM INVESTMENT POOL

STATEMENT OF CHANGES IN INVESTMENTS MANAGED
FOR THE YEARS ENDED JUNE 30, 1977 AND 1976

		1977		1976
NET INVESTMENTS MANAGED BEGINNING OF YEAR		$ 477,832,425		$ 417,873,281
Net investment income	35,449,997		30,678,747	
Income remitted to agencies	(33,985,157)		(29,559,896)	
Accrued income transferred	9,648		—0—	
Increase in income receivable		1,474,488		1,118,851
Interest purchased during the year	292,719		357,107	
Interest purchased collected during the year	(299,743)		(306,756)	
Increase (decrease) in interest purchased		(7,024)		50,351
Net bond swap losses incurred during the year	75,599		1,140,041	
Net amortization of deferred bond swap losses	(1,152,541)		(1,013,758)	
Increase (decrease) in net unamortized deferred losses on bond swaps		(1,076,942)		126,283
Increase in book value by net amortization of discounts and premiums		752,948		705,899
Securities transferred		—0—		881,313
Securities purchased	5,923,750,142		5,538,721,188	
Securities sold and matured	(5,844,984,772)		(5,481,644,741)	
Increase in book value by securities purchased		78,765,370		57,076,447
NET INVESTMENTS MANAGED END OF YEAR		$ 557,741,265		$ 477,832,425

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
ALL FUNDS, EXCLUDING THE SHORT-TERM INVESTMENT POOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1977

1. HISTORY AND ORGANIZATION:

The State of Montana Board of Investments (the Board) was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The investments and the income therefrom are owned by various State of Montana agency funds and managed on their behalf by the Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Investments

Investments, except mortgages, are presented in the statement of investments managed at original cost adjusted for discount and premium amortization where applicable. Mortgages are presented in the statement of investments managed at par value. Mortgage discounts are recorded in the accounting records of the applicable administrating agencies. Unrealized market gains on investments were $18,950,552 in 1977, and $9,150,207 in 1976.

Premiums and discounts are amortized using the straightline method over the life of the securities. An average life of eight years is used for amortization of mortgage discounts.

Bond Swaps

Bond swaps involve trading one security for another security having the same par value for the purpose of enhancing portfolio content and/or yield. The Board defers gains and losses resulting from bond swaps and amortizes such gains and losses over the shorter of either the remaining life of the bonds sold or the bond purchased for replacement. As shown in the accompanying financial statements at June 30, 1977 and 1976, the accumulated net unamortized deferred losses on bond swaps aggregated $6,453,323 in 1977, and $7,530,265 in 1976. The net amortization of the deferred losses totaled $1,152,541 in 1977, and $1,013,758 in 1976.

3. INVESTMENTS NOT CONTROLLED:

Mortgages, buildings, and land are not under direct control of the Board, although the costs of these assets are included in managed investments. The agencies administering these assets maintain control and provide the Board with the necessary financial information. Rental income from these buildings is included in the statement of investment income; however, occupancy and depreciation charges are recorded by the respective funds owning the buildings and are not included in the statement of investment income. The Employment Security Trust Fund Account in the amount of $5,604,568, is not controlled nor included in managed investments by the Board due to Federal restrictions.

4. TRUST AND LEGACY FUND PORTFOLIO COST ADJUSTMENT:

The accounting for the amortization of a portfolio cost adjustment previously recorded in the Board's financial statements is now being performed by the Department of State Lands. This change has no significant effect on the Board's financial statements.

AUDITOR'S OPINION

To the Legislative Audit Committee of the Montana State Legislature:

We have examined the statement of investments managed of the State of Montana Board of Investments, Short-Term Investment Pool as of June 30, 1977, and the related statements of investment income and distributions and changes in investments managed for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the State of Montana Board of Investments, Short-Term Investment Pool for the year ended June 30, 1976, which are presented for comparative purposes, were not examined by us; they were examined and reported on by other public accountants. Their opinion on such financial statements included in their report dated November 30, 1976, was qualified because "the Board of Investments' accounting personnel made certain prior period adjustments in the current year (1976) resulting in the restatement of the financial statements for 1975 and 1974."

In our opinion, the accompanying financial statements present fairly the investments managed of the State of Montana Board of Investments, Short-Term Investment Pool, as of June 30, 1977, and its investment income and distributions and the changes in its investments managed for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination has been made primarily for the purpose of forming the opinion stated in the preceding paragraph. The portfolio information contained in the supplement to the 1976-1977 Fiscal Year Report of the State of Montana Board of Investments, although not considered necessary for a fair presentation of investments managed, investment income and distributions and changes in investments managed, is presented as supplementary information and has been subjected to the audit procedures applied in the examination of the basic financial statements. In our opinion, the portfolio information is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

ARTHUR ANDERSEN & CO.
Boise, Idaho
September 28, 1977

STATE OF MONTANA BOARD OF INVESTMENTS
SHORT-TERM INVESTMENT POOL

STATEMENT OF INVESTMENTS MANAGED
JUNE 30, 1977 AND 1976

	1977	1976
Cash	$ 11,794	$ 23,929
Interest receivable	2,161,817	2,067,128
Investments managed at market (cost of $165,007,735 and $163,805,005 respectively) (Note 2)	167,481,198	165,076,233
Total assets	169,654,809	167,167,290
Accrued expenses	(17,807)	(19,808)
Value of units	169,637,002	167,147,482
Income due participants	(958,692)	(1,061,319)
Net asset value	$ 168,678,310	$ 166,086,163
Units outstanding	164,699	163,360
Unit value	$ 1,029.98	$ 1,023.18

The accompanying notes are an integral part
of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
SHORT-TERM INVESTMENT POOL

STATEMENT OF CHANGES IN INVESTMENTS MANAGED
FOR THE YEARS ENDED JUNE 30, 1977 AND 1976

	1977	1976
Net asset value, beginning of year	$ 166,086,163	$ 134,165,133
Units purchased by participants	71,392,958	86,947,935
Increase in unrealized appreciation on investments	1,202,234	883,578
Units sold by participants	(70,003,045)	(55,910,483)
Net asset value, end of year	$ 168,678,310	$ 166,086,163

The accompanying notes are an integral part
of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
SHORT-TERM INVESTMENT POOL

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTIONS
FOR THE YEARS ENDED JUNE 30, 1977 AND 1976

	1977	1976
Interest income	$ 11,502,634	$ 10,942,706
Realized gain (loss) on sale of investments	178,618	(111,665)
Income before administrative expenses	11,681,252	10,831,041
Administrative expenses (Note 2)	(214,899)	(191,006)
Net income	11,466,353	10,640,035
Income purchased by participants	1,174,207	1,617,749
Income due participants, beginning of year	1,061,319	1,001,041
Income available for distribution	13,701,879	13,258,825
Income distributed on units sold (Note 2)	1,196,889	959,679
November distribution (Note 2)	5,916,930	5,264,486
May distribution (Note 2)	5,629,368	5,973,341
Total distributions	12,743,187	12,197,506
Income due participants, end of year	$ 958,692	$ 1,061,319

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
SHORT-TERM INVESTMENT POOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1977

1. HISTORY AND ORGANIZATION:

The State of Montana Board of Investments (Board) was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Short-Term Investment Pool (STIP) provides a short-term investment vehicle to participants (state and local governmental units) with a relatively small amount to invest. Investments in STIP affords the participant liquidity and a return on their investment. The investments and the income of STIP are owned by the participants as they purchase units and are managed on their behalf by the Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Administrative Expenses

Administrative expenses incurred by the Board are charged to STIP daily based on the Board's expenses applicable to STIP.

Income Distribution

The value of units purchased or sold includes a daily computation of net asset value and income and therefore, income to point of sale is included in proceeds to the seller. Cash distributions of income are made to continuing participants on the last working day in the months of May and November. The amounts shown for units purchased and sold by participants are net of income purchased and income sold, respectively.

Investments

Investments are presented in the statement of investments managed at current market value. Gains and losses on bond swaps are accounted for on the completed transaction method and are therefore currently included in income.

SCHEDULE A
SOURCE OF INVESTMENTS

Other Retirement Funds:	1975-1976	1976-1977
Highway Patrol Retirement Fund	$ 3,501,415	$ 4,075,317
Statewide Police Reserve Fund	3,389,009	3,769,023
Sheriffs' Retirement Fund	2,175,674	2,961,357
Game Wardens' Retirement Fund	1,741,599	1,951,672
Montana Judges' Retirement Fund	1,437,113	1,647,816
TOTAL	$ 12,244,810	$ 14,405,185

Various University Funds:	1975-1976	1976-1977
M.S.U. Unexpended Plant Fund	$ 24,350	$ 1,866,968
A.E.S. Unrestricted Fund	622,110	883,649
U.M. Unrestricted Fund	—0—	589,336
M.C.M.S.T. Unexpended Plant Fund	319,541	409,122
M.S.U. Housing Fund	—0—	384,700
M.S.U. Rid 1971 Indebt. Fund	—0—	353,679
M.S.U. Rid 1963 Indebt. Fund	—0—	350,405
M.S.U. Miscellaneous Agency Fund	159,083	348,521
U.M. 1956 Indentures Aux. Fund	—0—	294,285
M.S.U. Endowment Fund	165,843	247,967
A.E.S. U.S. Range Fund	127,287	220,780
M.S.U. Other Restricted Fund	196,328	209,409
M.S.U. Rid 1954 Indebt. Fund	—0—	196,707
E.M.C. Aux. P.E. Building Fund	247,362	179,599
U.M. Building Fee Fund	100,293	142,735
M.S.U. Student Business Off. Fund	129,565	130,591
A.E.S. Unexpended Plant Fund	28,375	127,609
U.M. Associated Student Fund	—0—	123,384
U.M. Fieldhouse Fund	114,708	114,549
E.M.C. Apsaruke Hall Fund	94,372	97,302
U.M. Other Indentures Aux. Fund	—0—	96,916
M.C.M.S.T. Endowment Fund	93,387	94,411
E.M.C. Petro Rimrock Hall Fund	24,915	77,719
M.C.M.S.T. Loan Fund	92,299	72,005
U.M. Agency Fund	—0—	64,386
N.M.C. Housing & Dining Fund	54,314	63,362
E.M.C. S.G. Cap. Const. Fund	55,280	60,419
U.M. Restricted Gifts Fund	—0—	59,397
A.E.S. R & R Fund	56,728	58,847
M.S.U. R & R Fund	29,416	56,085
M.S.U. Fieldhouse I.C.A. Fund	48,736	51,801
M.S.U. Grants Fund	—0—	50,492
M.S.U. Student Health Service Fund	62,406	36,667
U.M. Student Aid Fund	—0—	33,788
M.C.M.S.T. N.D.S.L. Loan Fund	—0—	33,656
M.S.U. Student Union Fund	30,413	31,436
E.M.C. Aux. Health Services Fund	—0—	30,798
C.E.S. Other Restricted Fund	—0—	28,710
M.C.M.S.T. Student Aid Fund	117,473	25,519
A.E.S. Fertilizer Fund	18,268	22,514
E.M.C. Current Restricted Fund	21,107	21,107
U.M. Swimming Pool Fund	20,299	20,644
M.C.M.S.T. Associated Students Fund	—0—	20,418
U.M. Student Loan Fund	—0—	18,377
E.M.C. S.G. Contingency Fund	36,183	16,081
E.M.C. Cisel Hall Fund	—0—	15,417
N.M.C. Faculty Housing Fund	—0—	15,398
N.M.C. Endowment Fund	8,022	14,175
N.M.C. Series B Reserve Fund	23,906	13,943
M.C.M.S.T. Health Service Fund	14,193	13,179
N.M.C. Parking Lot Fund	4,020	11,206
U.M. Other Aux. Fund	—0—	10,297
E.M.C. Aux. Student Union Fund	—0—	10,293
E.M.C. Summer Programs Fund	—0—	10,278
E.M.C. Continuing Education Fund	—0—	10,278
N.M.C. Associated Student Fund	17,126	10,057
M.S.U. Other Designated Fund	5,000	10,000
E.M.C. Housing Fund	—0—	9,250
N.M.C. General Agency Fund	21,101	9,041
M.C.M.S.T. Parking Fund	—0—	7,209
A.E.S. Saline Seep Fund	8,070	7,164
E.M.C. S.G. Emergency Fund	7,036	7,036
E.M.C. Motor Pool Designated Fund	—0—	5,139
E.M.C. S.O. Band Uniform Fund	—0—	5,128
E.M.C. Courses by Newspaper Fund	—0—	3,083
E.M.C. S.O. Center for Handicap Fund	—0—	1,025
E.M.C. Current Unrestricted Fund	166,065	—0—
E.M.C. Payroll Cash Fund	65,621	—0—
M.C.M.S.T. Other Agency Fund	30,680	—0—
E.M.C. Aux. Bookstore Fund	27,258	—0—
M.C.M.S.T. Pledged Aux. Fund	18,310	—0—
E.M.C. S.G. F.W.S. Fund	6,094	—0—
E.M.C. S.O. Rodeo Fund	5,113	—0—
N.M.C. Other Aux. Fund	1,005	—0—
TOTAL	$ 3,519,061	$ 8,615,448

Other Funds:	1975-1976	1976-1977
Local Impact Fund	$ 3,702,875	$ 6,394,254
Trust Contractors' License Refund	3,611,394	4,598,436
Highway Complex Headquarters Fund	7,317,684	3,901,280
Hail Insurance Fund	1,991,398	2,248,976
Volunteer Fireman's Fund	1,506,913	1,686,550

SCHEDULE A (continued)

Subsequent Injury Fund	931,412	1,370,862
Renewable Resources Dev. Fund	557,697	1,124,495
Land & Resource Dev. Fund	679,294	825,351
Coal Tax Park Fund	278,150	757,615
Highway Complex Sinking Fund	—0—	727,736
Montana Rural Rehab. Fund	172,793	328,350
Wheat Research Fund	79,798	176,860
Donable Property Fund	83,370	83,370
Livestock Commission Fund	320,278	71,330
Occupational Disease Fund	64,213	53,502
Oil & Gas Fund	47,957	47,957
Livestock Commission—Emer. Fund	83,061	32,473
Water & Waste Water Fund	14,097	16,160
Water Well Fund	8,000	8,000
Capitol Building Fund	48,868	—0—
Cosmetology Board Fund	4,932	—0—
Board of Sanitarians Fund	2,015	—0—
TOTAL	$ 21,506,199	$ 24,453,557

Other STIP*:	**1975-1976**	**1976-1977**
City of Helena	$ 1,212,925	$ 2,151,128
Lake County Treasurer	85,906	1,497,968
Silver Bow County Treasurer	—0—	1,236,089
Fergus County Treasurer	4,450,837	1,221,658
City of Missoula	791,565	1,068,339
Lincoln County Treasurer	592,784	1,017,639
City of Helena Parking Bond Proceeds	3,040,706	1,004,860
Rosebud County Treasurer	3,568,653	1,002,906
Billings Fire Dept. Relief Assoc.	469,555	710,528
Great Falls Fire Dept. Relief Assoc.	550,450	664,522
Lewis & Clark County Treasurer	19,194	662,401
Gallatin County Treasurer	—0—	620,114
Missoula Fire Dept. Relief Assoc.	508,373	609,640
Ravalli County Treasurer	9,136	473,359
Madison County Treasurer	10,092	460,435
Liberty County Treasurer	66,311	391,979
Jefferson County Treasurer	—0—	357,681
Missoula County Treasurer	296,504	348,744
Yellowstone County Treasurer	219,509	324,797
Helena Fire Dept. Relief Assoc.	259,544	305,596
Kalispell Fire Dept. Relief Assoc.	253,394	267,625
Sanders County Treasurer	213,493	265,108
City of Lewistown	—0—	262,833
Bozeman Fire Dept. Relief Assoc.	255,202	254,993
Butte Fire Dept. Relief Assoc.	181,096	229,048
City of Great Falls	209,849	209,849
Park County Treasurer	53,883	185,945
City of Scobey	171,533	171,533
Daniels County Treasurer	424,475	170,355
City of Glendive	294,694	139,872
Miles City Fire Dept. Relief Assoc.	120,886	133,301
Stillwater County Treasurer	600,231	120,067
Glendive Fire Dept. Relief Assoc.	92,528	117,156
Powell County Treasurer	57,394	88,994
Havre Fire Dept. Relief Assoc.	58,986	79,566
Lewistown Fire Dept. Relief Assoc.	54,867	72,213
Dawson County Treasurer	56,132	67,722
Roosevelt County Treasurer	56,216	61,179
Livingston Fire Dept. Relief Assoc.	40,671	61,138
Hill County Treasurer	62,136	57,897
Anaconda Fire Dept. Relief Assoc.	44,844	44,884
Granite County Treasurer	36,206	36,206
Meagher County Treasurer	29,410	29,410
Broadwater County Treasurer	29,079	29,079
Valley County Treasurer	20,186	20,186
Teton County Treasurer	7,140	11,236
City of Choteau	5,103	6,121
Choteau Schools	5,078	5,078
Florence Carlton Schools	—0—	3,056
Culbertson Hospital Fund	886,653	—0—
Town of Chester	263,354	—0—
City of Butte	109,426	—0—
City of Kalispell	65,421	—0—
Sheridan County Treasurer	52,056	—0—
Beaverhead County Treasurer	39,844	—0—
TOTAL	$ 21,003,550	$ 19,332,033

*County and city funds not under the control of the State of Montana.

SCHEDULE B
TYPE OF INVESTMENTS

OTHER	**1975-1976**	**1976-1977**
Statewide Police Reserve Fund:		
City of Havre City Hall Bonds	$ 50,000	$ 50,000
PERS:		
ESC Building Revenue Bond	1,178,756	1,096,787
Building and Land	156,249	151,189
TRS:		
Building and Land	170,087	166,124
Workers' Compensation:		
U.C.C. Bonds	55,000	—0—
TOTAL	$ 1,610,092	$ 1,464,100

SCHEDULE C
INVESTMENT INCOME 1976-77 FISCAL YEAR

	CASH	CURRENT AMORTI-ZATION	NET DEFERRED GAIN or (LOSS)	STIP INCOME	MODIFIED INCOME	ACCRUED INCOME	NET INCOME
Public Employees' Retirement System Fund	$ 10,824,860	$ 62,425	$ (25,014)	$	$ 10,862,271	$ 499,322	$ 11,361,593
Treasurer's Fund	2,795,920	(1,613)		7,099,901	9,894,208	(104,881)	9,789,327
Teachers' Retirement System Fund	8,984,814	134,258	(19,793)		9,099,279	305,991	9,405,270
Trust & Legacy Fund	5,478,534	500,865	(1,037,374)		4,942,025	302,958	5,244,983
Workers' Compensation Fund	3,557,326	48,149	(62,786)		3,542,689	155,698	3,698,387
Long Range Building Fund	29,919	122		719,490	749,531	(14,121)	735,410
Common School Interest & Income Fund	108,707			499,683	608,390	(15,355)	593,035
Resource Indemnity Fund	447,034	965		27,083	475,082	57,840	532,922
Social Security Fund	490,573	104			490,677	(4,081)	486,596
Highway Complex Headquarters Fund				461,825	461,825	(23,812)	438,013
Statewide Police Reserve Fund	98,910	154		177,130	276,194	52,631	328,825
Highway Patrol Retirement Fund	284,874	3,826	(4,687)	4,797	288,810	16,295	305,105
Local Impact Fund				277,431	277,431	11,804	289,235
Educational Trust Fund				239,115	239,115	20,293	259,408
Federal Revenue Sharing—Cap. Const. Fund				259,889	259,889	(3,959)	255,930
Long Range Building Sinking Fund	250,497	86			250,583	(1,997)	248,586
Trust Contractors' License Refund	218,632				218,632	15,659	234,291
Sheriffs' Retirement Fund	165,403	418		6,353	172,174	46,119	218,293
Game Wardens' Retirement Fund	129,827	183	(787)	3,595	132,818	6,520	139,338
Hail Insurance Fund	50,249	(21)		86,839	137,067	(7,453)	129,614
Volunteer Fireman's Fund	117,539	598	(1,551)	2,422	119,008	9,874	128,882
Montana Judges' Retirement Fund	111,175	2	47	3,651	114,875	3,823	118,698
Subsequent Injury Fund	80,021	531		3,716	84,268	16,715	100,983
U.M. Unrestricted Fund				96,616	96,616	3,358	99,974
M.S.U. Unrestricted Fund				89,437	89,437		89,437
Renewable Resources Dev. Fund				59,631	59,631	2,739	62,370
A.E.S. Unrestricted Fund				59,799	59,799	1,119	60,918
Federal Revenue Sharing Fund	53,305			1,912	55,217		55,217
Lands & Resource Dev. Fund				47,962	47,962	383	48,345
M.S.U. Unexpended Plant Fund	2,056			36,929	38,985	6,108	45,093
Coal Tax Park Fund				30,756	30,756	2,471	33,227
Highway Building Complex Sinking Fund	23,911	4			23,915	7,625	31,540
M.C.M.S.T. Unexpended Plant Fund				25,910	25,910	168	26,078
M.S.U. Miscellaneous Agency Fund	694			21,305	21,999	979	22,978
M.S.U. Rid 1963 Indebt. Fund				19,008	19,008	1,546	20,554
E.M.C. Current Unrestricted Fund				18,640	18,640	(1,071)	17,569
William Murphy Fund	15,658			230	15,888	160	16,048
Montana Rural Rehab. Fund				14,637	14,637	771	15,408
M.S.U. Endowment Fund	673			13,981	14,654	368	15,022
E.M.C. Aux. P.E. Building Fund	14,317	81			14,398	(33)	14,365
A.E.S. U.S. Range Fund	508			13,163	13,671	593	14,264
Livestock Commission Fund	4,524	278		12,584	17,386	(3,767)	13,619
M.S.U. Other Restricted Fund	9,297			2,555	11,852	114	11,966

SCHEDULE C (continued)

	CASH	CURRENT AMORTI-ZATION	NET DEFERRED GAIN or (LOSS)	STIP INCOME	MODIFIED INCOME	ACCRUED INCOME	NET INCOME
U.M. Building Fee Fund				11,534	11,534	166	11,700
U.M. 1956 Indentures Aux. Fund				7,649	7,649	1,676	9,325
M.S.U. Student Business Off. Fund	673			8,077	8,750	(65)	8,685
U.M. Associated Student Fund				7,144	7,144	698	7,842
U.M. Fieldhouse Fund	6,922	141			7,063	(29)	7,034
M.S.U. Rid 1971 Indebt. Fund				5,445	5,445	1,529	6,974
Wheat Research Fund				6,457	6,457	504	6,961
M.C.M.S.T. Endowment Fund				6,435	6,435	(56)	6,379
Donable Property Fund				5,691	5,691	(55)	5,636
M.C.M.S.T. Loan Fund				5,224	5,224	(74)	5,150
Deaf & Blind Bequest Fund	1,401			101	1,502	3,596	5,098
M.S.U. Married Student Housing Fund	4,911				4,911		4,911
N.M.C. Housing & Dining Fund				4,803	4,803	16	4,819
M.S.U. Housing Fund				3,306	3,306	1,385	4,691
E.M.C. Petro Rimrock Hall Fund	4,425	42			4,467	218	4,685
M.C.M.S.T. Contracts & Gifts Fund				5,182	5,182	(584)	4,598
Livestock Commission—Emergency Fund				4,746	4,746	(346)	4,400
M.S.U. Student Health Service Fund				4,245	4,245	(29)	4,216
Capitol Building Fund	3,242	1,132			4,374	(190)	4,184
M.S.U. Rid 1954 Indebt. Fund				3,268	3,268	899	4,167
A.E.S. R & R Fund				4,072	4,072	(30)	4,042
Occupational Disease Fund	2,522	32	(596)	1,906	3,864	1	3,865
Dixon Endowment Fund	3,830				3,830		3,830
E.M.C. S.G. Cap. Const. Fund				3,817	3,817	(29)	3,788
M.S.U. R & R Fund				2,013	2,013	1,719	3,732
E.M.C. Payroll Cash Fund				3,937	3,937	(422)	3,515
U.M. Fund to Retire Indebt.				3,492	3,492		3,492
M.S.U. Fieldhouse I.C.A. Fund				3,319	3,319	(11)	3,308
Oil & Gas Fund				3,331	3,331	(32)	3,299
A.E.S. Unexpended Plant Fund				2,620	2,620	539	3,159
E.M.C. S.G. Contingency Fund				2,911	2,911	(141)	2,770
U.M. Other Indentures Aux. Fund				2,080	2,080	553	2,633
A.E.S Saline Seep Fund				2,397	2,397	(11)	2,386
E.M.C. Apsaruke Hall Fund	1,866	79			1,945	282	2,227
N.M.C. General Agency Fund				2,252	2,252	(84)	2,168
C.E.S. Other Restricted Fund				1,974	1,974	163	2,137
M.S.U. Student Union Fund				2,106	2,106	(8)	2,098
M.C.M.S.T. Pledged Aux. Fund				2,210	2,210	(117)	2,093
A.E.S. Fertilizer Fund				1,915	1,915	11	1,926
U.M. Agency Fund				1,132	1,132	367	1,499
E.M.C. Current Restricted Fund				1,457	1,457	(14)	1,443
E.M.C. Aux. Health Services Fund				1,253	1,253	175	1,428
E.M.C. Aux. Bookstore Fund				1,597	1,597	(175)	1,422
M.S.U. Grants Fund	798			224	1,022	211	1,233

SCHEDULE C (continued)

	CASH	CURRENT AMORTI-ZATION	NET DEFERRED GAIN or (LOSS)	STIP INCOME	MODIFIED INCOME	ACCRUED INCOME	NET INCOME
U.M. Swimming Pool Fund	1,180	44			1,224	(7)	1,217
Water & Waste Water Fund				1,214	1,214	2	1,216
T.R.S. Minnie Fullam Fund	1,109	11		69	1,189	4	1,193
N.M.C. Associated Student Fund				1,242	1,242	(52)	1,190
M.C.M.S.T. NDSL Loan Fund				1,134	1,134	50	1,184
U.M. Student Loan Fund				948	948	105	1,053
M.C.M.S.T. Health Service Fund				988	988	(15)	973
U.M. Student Aid Fund				831	831	81	912
N.M.C. Series B Reserve Fund	967	37			1,004	(240)	764
N.M.C. Endowment Fund				677	677	30	707
Water Well Fund	619				619		619
M.C.M.S.T. Student Aid Fund				611	611	(17)	594
N.M.C. Parking Lot Fund				462	462	38	500
N.M.C. Faculty Housing Fund				395	395	87	482
E.M.C. S.G. Emergency Fund				486	486	(5)	481
E.M.C. S.G. F.W.S. Fund				477	477	(39)	438
M.S.U. Other Designated Fund	413				413	17	430
M.C.M.S.T. Other Agency Fund				614	614	(195)	419
M.C.M.S.T. Associated Students Fund				296	296	116	412
U.M. Other Aux. Fund				325	325	58	383
U.M. Restricted Gifts Fund				40	40	338	378
E.M.C. S.O. Rodeo Fund				253	253	(6)	247
E.M.C. S.O. Band Uniform Fund				156	156	25	181
M.C.M.S.T. Parking Fund				134	134	30	164
Board of Sanitarians Fund				130	130	(13)	117
N.M.C. Other Aux. Fund				117	117	(6)	111
Cosmetology Board Fund	114	15			129	(51)	78
M.S.U. Rid 1956 Indebt. Fund				67	67		67
N.M.C. Motor Pool Fund				56	56		56
E.M.C. S.O. Center for Handicap Fund				39	39	6	45
E.M.C. Cisel Hall Fund						22	22
E.M.C. Summer Programs Fund						15	15
E.M.C. Continuing Education Fund						15	15
E.M.C. Housing Fund						13	13
E.M.C. Motor Pool Designated Fund						7	7
E.M.C. Aux. Student Union Fund						7	7
E.M.C. Courses by Newspaper Fund						4	4
Other STIP				1,374,348	1,374,348	(19,079)	1,355,269
TOTAL	$ 34,384,749	$ 752,948	$ (1,152,541)	$ 11,965,406	$ 45,950,562	$ 1,363,065	$ 47,313,627

SCHEDULE D
SUMMARY OF BOND SWAPS
FOR FISCAL YEAR 1976-77

FUND:	PAR SOLD	PAR ACQUIRED	REALIZED GAIN or (LOSS)	DEFERRED GAIN or (LOSS)
Trust & Legacy Fund	$ 5,214,000	$ 5,214,000	$ (20,788)	$ (3,114)
Workers' Compensation Fund	3,900,000	3,900,000	(65,692)	(8,083)
Public Employees' Retirement System Fund	3,840,000	3,840,000	34,626	2,984
Teachers' Retirement System Fund	2,733,000	2,733,000	(17,316)	1,696
Highway Patrol Retirement Fund	25,000	25,000	1,750	31
Montana Judges' Retirement Fund	25,000	25,000	189	47
Game Wardens' Retirement Fund	20,000	20,000	151	37
TOTAL	$ 15,757,000	$ 15,757,000	$ (67,080) (1)	$ (6,402) (2)

(1) If the completed transaction method were used for gains and losses on bond swaps.

(2) Based on the deferral method of accounting for gains and losses on bond swaps.

SCHEDULE E
UNAMORTIZED DEFERRED
GAINS or (LOSSES) ON BOND SWAPS
As of June 30, 1977

FUND:	BALANCE
Trust & Legacy Fund	$ (5,455,361)
Workers' Compensation Fund	(570,994)
Teachers' Retirement System Fund	(197,187)
Public Employees' Retirement System Fund	(166,430)
Highway Patrol Retirement Fund	(53,923)
Game Wardens' Retirement Fund	(5,008)
Volunteer Fireman's Fund	(3,295)
Occupational Disease Fund	(1,267)
Montana Judges' Retirement Fund	142
TOTAL	$ (6,453,323)

STATE OF MONTANA BOARD OF INVESTMENTS
GENERAL FOOTNOTES

Total Investments

The total STIP investments as included in the graphs, Type of Investments and Total Investments at Cost differs from the STIP investments as included in the graph Source of Investments by the amount of $1,771,080. The first two graphs show the Board's original cost of the STIP portfolio while the latter graph shows the participants' cost of the STIP units. STIP units are sold to the participants at the current market value of the STIP portfolio plus any accrued earnings as of the date the participants joined the investment pool.

Portfolio Yield

The yields for the Treasurer's Fund and STIP are calculated by determining the daily average invested balances and dividing this into net income for the fiscal year. All other portfolio yields are calculated as follows: two times net income divided by the beginning and ending asset balances less net income.

Modified Income

The graph Investment Income has been prepared on the modified income basis for comparison purposes. Modified income is cash income adjusted for the amortization of premiums and accrual of discounts and the deferral of gains or losses on bond swaps. The difference between modified income and net income on the accrual basis is $1,235,300 for fiscal 76-77 as shown in Schedule C.